

## Message Text

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ACTION SS-25

INFO OCT-01 ISO-00 SSO-00 NSCE-00 /026 W

----- 105313

O 031436Z SEP 76

FM AMEMBASSY WARSAW

TO SECSTATE WASHDC IMMEDIATE 3665

C O N F I D E N T I A L SECTION 1 OF 2 WARSAW 6245

EXDIS

E.O. 11652: GDS

TAGS: PFOR PINS PL US

SUBJ: POLAND: THINGS WE OUGHT TO DO -- AND NOT DO

1. SUMMARY. THIS HAS BEEN POLAND'S SUMMER OF DISCONTENT. THE EVENTS OF THE LAST THREE MONTHS HAVE LEFT A SHAKEN, DISPIRITED, GIEREK REGIME PITTED AGAINST A HEADSTRONG, DISTRUSTFUL, AND SULLEN POPULATION. AT BEST, POLAND WILL LONG BE MIRE IN A POLITICAL AND ECONOMIC SLOUGH. AS THE LEADERSHIP ATTEMPTS TO REGROUP AND RE-DEFINE ITS DOMESTIC POLICIES, GIEREK'S FOUR-YEAR-OLD TILT TOWARD THE WEST AND TOWARD THE US IN PARTICULAR WILL COME UNDER CAREFUL REVIEW. WHAT WE DO -- AND DON'T DO -- IN THE MONTHS AHEAD WILL HAVE A MAJOR IMPACT ON THIS PROCESS. WHAT I SEE ON THE HORIZON COMING OUT OF WASHINGTON LEADS ME TO FEAR THAT WE MAY UNWITTINGLY CONTRIBUTE TO A NEGATIVE ASSESSMENT BY THE POLES OF THE RELIABILITY OF THE US CONNECTION. A NUMBER OF THINGS ARE INDEPENDENTLY IN TRAIN. ANY OF THESE APPEARS REASONABLE ENOUGH WHEN VIEWED IN ISOLATION FROM THE OTHERS. THEIR COMBINED IMPACT ON THIS LESS-THAN-CONFIDENT REGIME MAY, HOWEVER, ENGENDER THE CONCLUSION THAT THE US IS REDUCING ITS SUPPORT FOR POLAND'S WESTWARD ORIENTATION. END SUMMARY.

2. WITHIN THE LIMITS OF HIS SCOPE FOR MANEUVER, GIEREK'S LEADERSHIP HAS BEEN GOOD FOR POLAND. THE ABORTIVE JUNE ATTEMPT TO CUT THE GORDIAN KNOT IN PRICE POLICY WAS A FIASCO. BUT THE GIEREK ADMINISTRATION HAS RAISED THE STANDARD OF LIVING IN POLAND, HAS INTRODUCED A MEASURE OF LIBERALISM IN GOVERNMENT, AND HAS BEEN MORE RESPONSIVE TO POPULAR PREFERENCES THAN ITS PREDECESSOR.

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GIEREK HAS ALSO BEEN GOOD FOR US INTERESTS. ALTHOUGH WE HAVE NO

WAY OF QUANTIFYING ITS IMPACT IN THIS DIRECTION, THE POLISH REGIME ALMOST SURELY HAS BEEN A FORCE FOR MODERATION AND RESTRAINT WITHIN THE COUNCILS OF THE WARSAW PACT. WHAT CAN BE MEASURED IS THE DRAMATIC EXPANSION OF US-POLISH BILATERAL TIES. THE SURGE IN TRADE TURNOVER FROM \$180 MILLION IN 1971 TO MORE THAN \$850 MILLION IN 1975 SHOWS NO SIGN OF ABATING. OUR CULTURAL CONTACTS, TOURISM, AND EXCHANGES HAVE FLOURISHED. WE HAVE SIGNED COOPERATION AGREEMENTS IN A BROAD RANGE OF AREAS, AND NUMEROUS CABINET-LEVEL AND LEGISLATIVE VISITS IN BOTH DIRECTIONS HAVE DEVELOPED CLOSE PROFESSIONAL AND PERSONAL TIES AT THE TOP ECHELONS OF BOTH GOVERNMENTS. HERE IN WARSAW, WE HAVE FULL ACCESS TO ALL LEVELS OF THE POLISH GOVERNMENT AND CAN ENGAGE IN OPEN AND CANDID DIALOGUES ON PRACTICALLY ANY SUBJECT OF COMMON INTEREST. THIS IS NOT TO SAY THAT RELATIONS ARE IDEAL AND THAT THERE ARE NO SERIOUS PROBLEMS (E.G., DIVIDED FAMILIES), BUT OUR RELATIONS WITH THIS COUNTRY HAVE CHANGED DRAMATICALLY FOR THE BETTER SINCE 1972. WE HAVE AN INTEREST IN SEEING THAT THEY CONTINUE ALONG THIS PATH.

3. NOW GIEREK IS IN TROUBLE -- HOW DEEPLY WE DO NOT KNOW. THE ABORTIVE ATTEMPT TO RAISE FOOD PRICES IN JUNE DEMONSTRATED HOW FRAGILE THE FIRST SECRETARY'S STANDING WITH THE POLISH PEOPLE REALLY IS AND HOW UNLIKELY IT IS THAT A COMMUNIST GOVERNMENT IN THIS COUNTRY CAN ACQUIRE ANYTHING MORE THAN GRUDGING POPULAR ACQUIESCENCE. BUT, SO LONG AS THE SOVIET UNION MAINTAINS ITS UNITY AND STRENGTH, SOME FORM OF COMMUNIST REGIME WILL BE AROUND FOR A LONG TIME IN POLAND. WHEN WE SURVEY THE POSSIBLE ALTERNATIVES TO GIEREK, WE SEE NO ONE MORE LIKELY TO SUIT OUR PURPOSES OR, FOR THAT MATTER, POLAND'S LONG-TERM INTERESTS. THERE MAY BE SOMEONE IN THE NEXT LOWER LAYER OF THE LEADERSHIP WHO WOULD PROVE TO BE AS CONGENIAL TO OUR PURPOSES, OR EVEN MORE SO, BUT WE HAVE NO EVIDENCE NOW WHICH WOULD ENABLE US TO IDENTIFY SUCH A CANDIDATE. MORE TO THE POINT, NO RESPONSIBLE AND INFORMED OBSERVER OF THE POLISH SCENE, WHETHER FOREIGNER OR NATIVE, CAN NOW SEE ANYBODY IN THE LEADERSHIP WITH THE POTENTIAL OF ASSUMING THE FIRST SECRETARYSHIP IN GIEREK'S PLACE -- A SITUATION QUITE THE OPPOSITE OF THAT WHICH CHARACTERIZED GOMULKA'S DECLINING YEARS IN OFFICE, WHEN GIEREK AND MOCZAR WERE VISIBLE IN THE WINGS.

4. WE CANNOT AND SHOULD NOT BASE OUR POLICY OR ACTIONS TOWARDS POLAND ON AN EFFORT TO HELP GIEREK REMAIN IN OFFICE OR ON THE CONFIDENTIAL

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ASSUMPTION THAT HE WILL DO SO INDEFINITELY. OUR POLICY IS DIRECTED RATHER TOWARDS ATTAINING OBJECTIVES DEFINED IN TERMS OF THE ROLE WHICH, IN VIEW OF ITS HISTORY, WE CAN EXPECT THE POLISH STATE TO PLAY IN THIS PART OF EUROPE. THE MOST SIGNIFICANT ELEMENT ENABLING IT TO PLAY THAT ROLE IS THE CHARACTER OF THE POLISH PEOPLE. ULTIMATELY, NOTHING WE DO OR FAIL TO DO CAN BE EXPECTED DECISIVELY TO AFFECT THE QUESTION OF WHO HOLDS THE POSITION OF FIRST SECRETARY OF THE POLISH COMMUNIST PARTY.

WHETHER GIEREK OR SOMEONE ELSE IS FIRST SECRETARY, WE SHOULD BE CONCERNED TO DEMONSTRATE THE CONSISTENCY OF OUR PURPOSE IN SUPPORTING A LINE OF DEVELOPMENT OF RELATIONS WITH THIS COUNTRY IMPLICITLY DESIGNED TO HELP POLAND INCREASE ITS ROOM FOR MANEUVER VIS-A-VIS THE USSR.

5. ARE THERE THINGS WE SHOULD DO OVER THE CRUCIAL PERIOD OF THE NEXT FEW MONTHS TO DEMONSTRATE THAT OUR POLICY TOWARDS POLAND IS CONSISTENT AND RELIABLE? I STRONGLY RECOMMEND THAT SOME OF THE DECISIONS WE HAVE ALREADY MADE BE RE-EXAMINED IN THE LIGHT OF OUR NEED TO DEMONSTRATE THE CONSISTENCY OF PURPOSE SKETCHED IN PARAGRAPH 4 AND THAT FUTURE DECISIONS IN OTHER AREAS BE UNDERTAKEN IN THE LIGHT OF THIS SAME DESIDERATUM.

A. CCC CREDITS. THE RECENT LETTER FROM SECRETARY BUTZ TO MINISTER BARCIKOWSKI ON CCC CREDITS WAS HELPFUL. AS WE REPORTED, ITS REAL INTENT WAS APPROPRIATELY REGISTERED BY THE POLES. NOW THIS COMMITMENT WILL HAVE TO BE MADE GOOD. I AM CONFIDENT THAT BOTH STATE AND AGRICULTURE WILL DO EVERYTHING POSSIBLE TO MEET THE POLISH REQUEST ON CREDITS.

DAVIES

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O 031436Z SEP 76

FM AMEMBASSY WARSAW

TO SECSTATE WASHDC IMMEDIATE 3666

C O N F I D E N T I A L SECTION 2 OF 2 WARSAW 6245

EXDIS

B. TREASURY DECISION ON EXCESS ZLOTYS. ACCORDING TO THE AGREEMENT ON FUNDING OF COOPERATION IN SCIENCE AND TECHNOLOGY, SIGNED IN GIEREK'S PRESENCE BY SECRETARY KISSINGER AND POLISH VICE PREMIER JAGIELSKI ON OCTOBER 8, 1974 (AS AMENDED AT THE MARCH-APRIL, 1976, JOINT BOARD MEETING), THE USG WAS TO DEPOSIT 581 MILLION ZLOTYS IN THE MARIE SKLODOWSKA-CURIE FUND BY SEPTEMBER 30, 1978. THE U.S. DEPARTMENT OF THE TREASURY HAD SET THAT DATE AS THE END OF PERIOD OF DESIGNATION OF THE ZLOTY AS AN EXCESS

FOREIGN CURRENCY. SUBSEQUENTLY, TREASURY MOVED THE CUT-OFF DATE UP TO DECEMBER 31, 1976, WITHOUT REGARD TO ITS EARLIER APPROVAL OF SEPTEMBER 30, 1978, AND THE INCLUSION OF THAT DATE IN THE KISSINGER-JAGIELSKI AGREEMENT. THE ADVANCING OF THE CUT-OFF DATE TO THE END OF THIS YEAR HAS SET OFF A CHAIN OF ADVERSE EFFECTS. THERE NOW EXISTS A DISTINCT POSSIBILITY THAT US PARTICIPATING AGENCIES WILL BE UNABLE TO OBLIGATE AND DEPOSIT IN THE US-POLISH JOINT FUND BY DECEMBER 31, 1976, THE TOTAL CONTRIBUTION OF 581 MILLION ZLOTYS (INCLUDING AMOUNTS ALREADY DEPOSITED AND SUPPORT ITEMS). FAILURE TO DEPOSIT THIS AMOUNT BY THE DUT-OFF DATE WOULD MEAN THAT WE HAD DEFAULTED. THE TREASURY DECISION ALSO REPRESENTS A HARDSHIP ON US PARTICIPATING AGENCIES. GIVEN SHORT NOTICE TO OBLIGATE FULLY THEIR SFCP ALLOTMENTS, AGENCIES HAVE ACCELERATED THE PROPOSAL REVIEW AND DOCUMENTATION PROCESS TO A RATE THAT MAY RESULT IN SUMMARY APPROVAL OF QUESTIONABLE RESEARCH FOR THE SAKE OF FULFILLING THEIR FISCAL QUOTAS. THIS PRACTICE WOULD YIELD BAD SCIENCE AND THWART THE PURPOSE AND INTEND OF THE ENTIRE COOPERATIVE PROGRAM, WHICH IS TO CONTRIBUTE TO THE GENERAL UPGRADING OF POLITICAL RELATIONS THROUGH COLLABORATION IN HIGH-QUALITY SCIENTIFIC RESEARCH. AN EVEN MORE VEXING  
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PROBLEM IS CREATED BY DIFFERING INTERPRETATIONS OF WHO PAYS FOR TRAVEL COSTS ONCE THE ZLOTY IS NO LONGER CONSIDERED EXCESS. THIS WOULD NOT HAVE BEEN AN ISSUE IF WE HAD KEPT TO OUR ORIGINAL STATED INTENTION TO FINANCE PROJECTS UNTIL SEPTEMBER 30, 1978. UNTIL IT IS RESOLVED, WE ARE WITHHOLDING APPROVAL OF ALL PROJECTS PROPOSED FOR FINANCING BY THE POLES, THUS CREATING A PROBLEM WHERE NONE EXISTED BEFORE. I THEREFORE STRONGLY RECOMMEND THAT TREASURY BE ASKED AT THE HIGHEST LEVEL TO RECONSIDER ITS DECISION TO MOVE UP THE CUT-OFF DATE ON EXCESS ZLOTYS. WE SHOULD STRIVE TO RESTORE THE DATE SET IN THE KISSINGER-JAGIELSKI AGREEMENT. AS A MINIMUM, A DELAY OF SEVERAL MONTHS IN THE IMPLEMENTATION OF THE CUT-OFF WOULD GIVE WASHINGTON AGENCIES A CHANCE TO DO A BETTER JOB OF APPROVING PROJECTS AND WOULD GIVE US TIME TO ARRIVE AT AN ACCEPTABLE AGREEMENT ON THE TRAVEL-COST ISSUE.

C. EXCHANGE PROGRAMS. OUR EDUCATIONAL-EXCHANGE PROGRAM IN POLAND IS THREATENED BY RISING COSTS, INFLATION, AND THE NECESSITY TO PRUNE OUR RESOURCES TO PERMIT THE EXPANSION OF EXCHANGE PROGRAMS IN THE USSR AND OTHER EASTERN EUROPEAN COUNTRIES. THE IREX PROGRAM HERE ALREADY HAS BEEN GREATLY CURTAILED. THE RECENT LETTER FROM IREX EXECUTIVE DIRECTOR ALLEN KASSOF TO EE CHIEFS OF MISSION CONTEMPLATES THE POSSIBLE TERMINATION OF THE PROGRAM IN 1977-78. THE DEPARTMENT HAS UNDERSTANDABLY COMMENTED THAT "FY 77 IS ANOTHER LEAN BUDGET YEAR FOR CU, AND ANY INCREASE IN THE CU GRANT TO IREX WILL HAVE TO COME FROM OUR OWN PROGRAMS." HOWEVER, EXECUTIVE DIRECTOR KASSOF IS RIGHT WHEN HE SAYS THAT THE POLES ARE LIKELY TO ATTACH POLITICAL SIGNIFICANCE TO THE CURTAILMENT OF PROGRAMS IN THIS AREA. THIS WOULD BE ALMOST INEVITABLE IF THAT CURTAILMENT OCCURRED IN TANDEM WITH A SHORT-FALL IN OUR

PROMISED CONTRIBUTION TO THE JOINT FUND AND WITH THE REDUCTIONS IN FULBRIGHT PROGRAMS AND USG GRANTS TO US AND POLISH UNIVERSITIES ENGAGED IN PRIVATE EXCHANGES WHICH MIGHT OCCUR NEXT YEAR. I RECOMMEND THAT EVERY EFFORT BE MADE TO MAINTAIN CURRENT LEVELS OF PROGRAMS IN POLAND DIRECTLY FUNDED BY CU AND TO EXPLORE THE POSSIBILITIES OF AVOIDING FURTHER CURTAILMENT OF IREX ACTIVITIES, AT LEAST FOR NEXT YEAR. I AM WRITING SEPARATELY TO ASSISTANT SECRETARY JOHN RICHARDSON ON THIS LAST POINT.

D. ECONOMIC ACTIONS. A NUMBER OF ACTIONS TAKEN BY THE US IN THE ECONOMIC REALM IN RECENT MONTHS COULD PROVIDE THE BASIS FOR ACCUSATIONS WITHIN THE POLISH LEADERSHIP THAT THE UNITED STATES MAY NOT BE A RELIABLE LONG-TERM TRADING PARTNER. FIRST, JUST AS POLISH CREDITWORTHINESS WAS BEING CALLED INTO QUESTION BY THE CONFIDENTIAL

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BANKERS OF THE WEST, THE US LED THE WESTERN EXPORT-FINANCING AGENCIES INTO THE JULY 1 TIGHTENING OF LENDING TERMS. MOREOVER, EXIM BANK HAS SHOWN ALMOST NO ABILITY TO SOFTEN ITS FINANCING TERMS IN DEALS WHICH ARE OF VITAL IMPORTANCE TO THE POLES. SECOND, THE IMPLEMENTATION OF THE MARKET-DISRUPTION FEATURES OF THE NEW TRADE ACT HAS GIVEN THE IMPRESSION HERE THAT THE US IS CAPABLE OF FINDING WAYS OF NOT APPLYING THESE TO OUR WESTERN ALLIES, BUT, AS IN THE SYMBOLIC GOLF-CART CASE, APPLIES THEM WITH RELATIVELY FULL VIGOR AGAINST POLAND. THIRD, POLISH TEXTILE, DAIRY, AND FRESH MEAT EXPORTS TO THE US ARE CONSTRAINED BY QUOTAS AND OTHER RESTRICTIVE DEVICES AND POLAND'S PRINCIPAL EXPORT TO THE US, HAM, IS CURRENTLY BEING THREATENED BY PROTECTIONIST ACTIONS. CONFRONTED WITH WHAT THEY SEE AS THE BIAS OF US TRADE LEGISLATION AND PRACTICE AGAINST COMMUNIST AND NEW-TO-EXPORT ECONOMIES, THE POLES MIGHT WELL DECIDE THAT THE US, AND PERHAPS THE WEST AS A WHOLE, WILL NOT ALLOW THEM TO EARN ENOUGH FOREIGN EXCHANGE TO MAKE EXPANDED TRADE RELATIONS POSSIBLE ON A LONG-TERM BASIS. IF THE POLES ARE NOT TO BE DETERRED FROM CONTINUING TO EXPAND THEIR TRADE AND ECONOMIC RELATIONS WITH THE UNITED STATES AND THE WEST, WE WILL PROBABLY HAVE TO TAKE SPECIFIC STEPS TO DEMONSTRATE THAT OUR DECK IS NOT STACKED AGAINST THEM.

6. DEPARTMENT PLEASE PASS TO EMBASSY MOSCOW.  
DAVIES

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